

## Message Text

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ORIGIN ARA-10

INFO OCT-01 EB-07 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05

L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

USIA-06 FS-01 /091 R

DRAFTED BY ARA/BR:JSLATTERY:TR

APPROVED BY EB:TOENDERS

ARA/BR:RWZIMMERMANN

EB/FSE:MCREEKMORE

FSE - MR. BOSWORTH

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R 050132Z FEB 75

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L STATE 026008

E.O. 11652: GDS

TAGS:PFOR, ETRD, EMIN, BR

SUBJECT:US POLICY ON PETROLEUM PRODUCER-CONSUMER MEETING

REF: STATE 22610

1. AMB. ARAUJO CASTRO CALLED ON ASST. SEC. ENDERS MONDAY, FEBRUARY 3, TO ASK FOR US VIEWS ON PREPARATION FOR PRODUCER-CONSUMER CONFERENCE ON ENERGY. FOLLOWING ARE HIGHLIGHTS OF THAT CONVERSATION. FULL MEMCON WILL BE POUCHED.

2. ENDERS EXPLAINED US BELIEVES TWO PRE-CONDITIONS NECESSARY FOR SUCCESSFUL CONFERENCE: A) CONSUMERS MUST AGREE ON DEFENSIVE MEASURES AGAINST EMBARGO AND AGAINST AGGRESSIVE USES BY PRODUCERS OF THEIR NEW FINANCIAL ASSETS.

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THIS HAS BEEN ACCOMPLISHED BY THE AGREEMENTS ESTABLISHING THE INTERNATIONAL ENERGY AGENCY AND THE \$25 BILLION SAFETY

NET. B) CONSUMERS MUST BE IN POSITION TO INFLUENCE OIL MARKET, THROUGH AGREEMENT ON CONSERVATION MEASURES AND ACCELERATED PROGRAM TO DEVELOP ALTERNATIVE ENERGY SUPPLIES.

3. ENDERS SAID SECRETARY KISSINGER WAS PRESENTING US IDEAS ON CONSERVATION AND ALTERNATIVE ENERGY SOURCES IN MAJOR SPEECH TODAY (DELIVERED TO N- PRESS CLUB 2/3/75.) US PROPOSAL CONSISTS OF THREE TIERS: A) PROVISION FOR ADEQUATE INCENTIVES FOR DEVELOPMENT OF CONVENTIONAL FOSSIL FUELS BY AGREEMENT ON FLOOR PRICE FOR PETROLEUM, B) JOINT DEVELOPMENT OF SYNTHETIC FUELS (SHAPE, TAR SANDS, LIQUIFIED COAL), AND C) JOINT RESEARCH ON LONG-TERM SOURCES OF POWER (FUSION, SOLAR ENERGY).

4. US BELIEVES SUBJECTS TO BE DISCUSSED WITH PRODUCERS WILL PROBABLY BE: A) RECYCLING, B) PROBLEMS CAUSED BY OPEC INVESTMENTS IN INDUSTRIALIZED COUNTRIES, C) SECURITY OF SUPPLY, D) DEVELOPMENT OF INDUSTRY IN PRODUCER COUNTRIES, AND E) PRICES. US POSITION ON WHETHER OTHER RAW MATERIALS SHOULD BE ADDRESSED BY CONFERENCE IS STILL OPEN, ALTHOUGH WE BELIEVE BROADENING CONFERENCE IN THIS WAY WOULD MAKE CONFERENCE FAR LESS EFFECTIVE. US BELIEVES THAT OIL IS A SPECIAL CASE AND CANNOT BE USED AS MODEL FOR OTHER COMMODITIES.

5. ENDERS NOTED DIFFICULTIES OF DECIDING ON PARTICIPANTS IN CONFERENCE. THE FRENCH PROPOSAL OF NOV. 1974, SUGGESTING ABOUT 12 PARTICIPANTS, SEEMED GOOD BASE FOR PRELIMINARY MEETING, BUT MANY SMALLER COUNTRIES ARE INTERESTED IN PARTICIPATING IN THE FULL CONFERENCE. PROBLEM IS ESPECIALLY DIFFICULT FOR SMALLER LDC CONSUMERS SINCE IT IS DIFFICULT TO FIND UMBRELLA ORGANIZATION WHICH MIGHT ACT AS THEIR REPRESENTATIVE. ENDERS ASKED FOR ANY SUGGESTIONS THAT ARAUJO CASTRO AND GOB MIGHT HAVE ON THIS PROBLEM.

6. AMBASSADOR ASKED UNDER WHAT CONDITIONS US MIGHT AGREE TO INDEXATION. ENDERS REPLIED THAT US IS STUDYING IMPLICATIONS OF INDEXATION. ONE POSSIBLE FORMULA MIGHT BE INDEXATION OF OIL IN TERMS OF COST OF ENERGY ALTERNATIVES. BUT THERE ARE SERIOUS QUESTIONS AS TO SUSTAINABILITY OF ANY FORMULA; FOR EXAMPLE, IF OIL WERE TO BE INDEXED VIS-A-VIS INDUSTRIAL GOODS, PRICE IN TWENTY YEARS THEORETICALLY COULD BE AT LEVEL WHICH WOULD CALL FORTH MUCH MORE OIL PRODUCTION THAN DESIRED BY ANYONE.

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7. ENDERS BELIEVES MAJOR CONSUMER DECISIONS ON CONSERVATION, ALTERNATIVE ENERGY SUPPLIES AND FINANCIAL SOLIDARITY CAN BE REACHED IN TWO MONTHS, DESPITE CURRENT RESERVATIONS AMONG SOME OTHER CONSUMERS REGARDING US PROPOSALS. HE EMPHASIZED ACTION IS NEEDED SOON, BEFORE

WORLD ECONOMY RETURNS TO EXPANSION PHASE. AT PRESENT BECAUSE OF PRICE, UNUSUALLY WARM WEATHER, AS WELL AS RE-CESSION, OPEC IS PRODUCING AT ONLY THREE-QUARTERS CAPACITY. CONSERVATION MEASURES, COMBINING WITH EXPANDED REVENUE REQUIREMENTS IN MORE POPULOUS OPEC COUNTRIES, CAN MAINTAIN AND PERHAPS INCREASE THE DOWNWARD PRESSURE ON PRICE. ABANDONMENT OF CONSERVATION, ON THE OTHER HAND, WOULD RESTORE FULL POWER OF OPEC WHEN ECONOMY REVIVES.

8. ENDERS ASKED THAT AMBASSADOR KEEP IN TOUCH WITH HIM ON THIS MATTER, ESPECIALLY IF BRAZIL COULD MAKE ANY SUGGESTIONS ON STRUCTURE OF CONFERENCE. KISSINGER

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